

CHAPTER 6

Concluding Remarks

6.10 INTRODUCTION

The aim of this study was to empirically examine the implication of the trend towards international convergence of financial reporting standards, particularly where countries differ significantly in terms of culture, size, structure of the underlying economies, and the related experience of accountants in exercising professional judgments. The primary objectives were to examine (1) whether countries adopt IFRSs in a similar manner and (2) whether IFRSs are interpreted and applied in a consistent manner, both within and across countries. Paper 1 considered the first issue by identifying the ways in which IFRSs are adopted and enforced in the South Pacific region and also investigated the relationship between country-specific characteristics and the selection of the appropriate approach for adoption. Paper 2 reported the characteristics and significance of accounting judgment and decision making research published during 1971–2005 in the five top-tier accounting journals. Papers 3 and 4 considered the issues of whether IFRSs are interpreted and applied in a consistent manner, both within and across countries. In particular, Paper 3 provided evidence of whether IFRSs are interpreted and applied in a consistent manner within a country (Fiji), while Paper 4 showed evidence of whether IFRSs are interpreted and applied in a consistent manner across countries (Australia and Fiji).

The summary and implications from each of the four papers are presented below, followed by the general conclusions and further implications drawn from the entire thesis. Finally, the limitations of this thesis are outlined together with the suggestions for future research.

6.20 SUMMARIES AND IMPLICATIONS OF THE INDIVIDUAL STUDIES

6.21 Paper 1: International Convergence of Financial Reporting Standards: Evidence from the South Pacific Region

The purpose of this paper was (1) to establish a framework for convergence and harmonization of accounting standards and (2) to identify the ways in which IFRSs are adopted and enforced in the South Pacific region and also investigate the relationship between country-specific characteristics and the selection of the appropriate approach for adoption of IFRSs.

This paper identified broadly five different approaches for convergence and harmonization of accounting standards—ranging from adoption of IFRSs in their entirety to the lack of reference to IFRSs, that is, no convergence and harmonization. The analysis also showed that countries in the South Pacific region have used different approaches in adopting the IFRSs. The country-specific attributes that have been found to influence the approaches of convergence in this region are (1) the set of accounting standards that was prevailing in the country at the time when the selection was made, (2) the availability and experience of professional accountants, (3) the relevant education and professional training, (4) the presence of the Big 4 accounting firms and (5) the accounting regulatory framework.

This study has important policy implications for other countries that are likely to adopt IFRSs in the near future. It showed that apart from the adoption of IFRSs, countries also need well-established system of enforcing and monitoring compliance with accounting standards. For example, the Papua New Guinea case showed that a country may face difficulties in interpreting and enforcing the IFRSs if it lacks qualified and experienced accountants and supporting regulatory mechanisms. In a similar manner, the analysis showed that implementation and enforcement of IFRSs may be problematic for small South Pacific Island nations. To enable a smooth transition towards IFRSs, the Fijian example showed that it may be better not to adopt all the IFRSs at once. A selective

approach may be appropriate for those countries that do not have the resources to support the full adoption of the IFRSs or where some of the IFRSs may not be relevant. The adoption of IFRSs may also be challenging for developed countries. For example, the Australian experience shows that adopting the IFRSs and keeping up-to-date with the developments is a challenging task, given the substantial revisions to the existing IFRSs and the new IFRSs being mandated by the IASB.

6.22 Paper 2: Accounting Judgment and Decision Making Research: Evaluation of Publications in Top-Tier Accounting Journals (1971–2005)

This paper reviewed the accounting judgment and decision making research published during 1971–2005 in the five top-tier accounting journals. In particular, the paper (1) evaluated the characteristics and significance of these studies, (2) reviewed and evaluated the theoretical and methodological strengths and weaknesses of these studies, and (3) suggested avenues for future research.

A total of only sixteen papers were identified which can be categorized as part of accounting judgment and decision making research. The review of the sixteen papers showed that accounting judgment and decision making research has four basic aims: (i) to identify the extent of similarity in the meanings of key accounting concepts held by various parties involved in the preparation and use of financial reports (seven studies); (ii) to describe how professional accountants interpret and apply accounting standards, in particular examining the ambiguity in interpretation of uncertainty expressions (four studies); (iii) to identify the influence of other factors including national and linguistic culture on the interpretation and application of accounting standards (one study); and (iv) to provide some insight into the theoretical and conceptual issues in accounting judgment and decision making research (four studies).

In particular, the review of accounting judgment and decision making research showed that there is limited research on the level of ambiguity in the interpretations of ‘uncertainty expressions’ or the factors that could potentially influence this ambiguity.

Given the increasing trend towards accounting convergence, it is important to undertake additional research on interpretation and application of accounting standards. An understanding of the similarities and differences in the interpretation of these uncertainty expressions and judgments of professional accountants across nations should facilitate this move towards convergence of accounting practices.

6.23 Paper 3: Judgments Based on Interpretation of ‘New’ and ‘Complex’ International Financial Reporting Standards within a Country: Evidence from Fiji

Using a sample of professional accountants from Fiji, the primary objective was to test whether there are differences in the judgments between the big 4 and non-big 4 professional accountants when interpreting and applying selected IFRSs. In particular, the purpose of this paper was to examine the effects of ‘new’ and ‘complex’ accounting standards on judgments of professional accountants.

The most important result of this paper was that significant differences in judgments exist between the big 4 and non-big 4 professional accountants in Fiji when provided with new accounting standards that require complex judgments. The results further showed that both familiarity with the accounting standards and complexity in accounting standards have a significant effect on the judgments of the big 4 and non-big 4 professional accountants. Further, the study also showed an interaction between familiarity and complexity of accounting standards on judgments of professional accountants. As expected, the difference in judgments of the big 4 and non-big 4 professional accountants were found to be greater if standards are ‘new’ (unfamiliar) when compared to standards that are ‘old’ (familiar). In a similar manner, the difference in the judgments of the big 4 and non-big 4 professional accountants were found to be greater if standards are ‘complex’ when compared to standards that are less complex.

The findings from this study on the effects of ‘familiarity’ and ‘complexity’ of accounting standards on professional accountants’ judgments could be useful in

identifying ways to improve the interpretation and application of accounting standards both within and across countries. If a lack of familiarity with the accounting standards is causing differences in the judgments of accountants, accounting regulators could ensure that adequate training and exposure is provided to professional accountants. Similarly, if the high complexity of accounting standards is causing differences in the judgment of professional accountants, the interpretation of such standards could be improved by reducing the inherent ‘complexity.’ For example, such standards could be reviewed to reduce the number of ambiguities and other difficulties that cause problems for professional accountants in exercising their judgment. Accounting standards can also provide a more explicit judgment guide by indicating the sources of data, kinds of analyses and even priorities of factors that would be relevant in making such choices and estimates (Mason and Gibbins 1991, p.24).

6.24 Paper 4: Cultural and Non-Cultural Factors Affecting Judgments of Professional Accountants: A Comparative Study of Australia and Fiji

The purpose of this paper was to examine the effects of both cultural and non-cultural variables on the judgments of professional accountants. Specifically, it examines the extent and the cause of differences in judgments between professional accountants in Australia and Fiji when interpreting and applying selected IFRSs which contain uncertainty expressions.

The results obtained on the relevant cultural dimensions showed that Fijian accountants exhibit stronger conservatism when compared to Australian accountants. The empirical results showed that national culture has a significant effect on the manner in which professional accountants in a country interpret uncertainty expressions contained in the IFRSs. An important result of this paper was that it provides strong support for the argument that national culture and organizational culture (big 4 and non-big 4 firm affiliation) interact to influence the judgments of professional accountants. Additional analyses were carried out to identify the effects of other non-cultural factors on judgments of professional accountants in Australia and Fiji—results showed that the

professional accountant's perceived level of task complexity in each of the three scenarios used in this study have a significant effect on their judgments.

The findings of this study have important implications for accounting convergence. International regulators involved in convergence of accounting standards need to pay greater attention to the cultural and non-cultural factors that may cause a difference in the interpretation and application of IFRSs. The findings also show that uniformity in financial reporting may not result as IFRSs may not be consistently applied across different countries. This represents a serious communication problem which is likely to reduce the usefulness of accounting convergence. In particular, international regulators should be concerned about the possibility of different interpretations of similar accounting standards that contain uncertainty expressions as it could result in non-comparable financial statements internationally. Therefore, it is important to reduce the uncertainty expressions used in accounting standards or to make them more precise.

6.30 OVERALL CONCLUSIONS AND FURTHER IMPLICATIONS

This thesis has considered both the *de jure* and *de facto* aspects of comparability in financial reporting. Generally, the findings of this study show that there is a lack of both *de jure* and *de facto* comparability in financial reporting across countries. An examination of the convergence process in the South Pacific region provided evidence that countries are using different approaches while adopting IFRSs. A comparative study between two countries that have adopted the IFRSs provided evidence that IFRSs are not interpreted and applied in a consistent manner across nations. A within-country analysis of Fiji also showed that IFRSs may not be interpreted and applied in a consistent manner across the big 4 and non-big 4 professional accountants. The results of this study raise the concern about whether convergence will lead to comparable financial reporting.

The quest for the international convergence of accounting standards and practices has become more important because of a growing need to provide accounting information which is meaningful and comparable across nations. There is no doubt that adopting IFRSs is a necessary step towards a more comparable financial reporting. However, the process of convergence does not come to an end with the adoption of IFRSs—it is the beginning of a difficult path. It is an enormous undertaking and countries should not expect satisfactory progress to come swiftly. Each country that adopts IFRSs would require strong regulatory oversight to enforce consistent use of the standards. The results of this study imply that imposing IFRSs in various countries without first developing the financial reporting infrastructure needed to support that common regime would not lead to success in the convergence process. Adequate attention should be given to institutional differences among countries, more so to the differences in professional accountants' judgments. This is important as those differences would necessarily result in different decisions being made by professional accountants while applying IFRSs, eventually undermining the whole purpose of convergence.

Differences in the reporting environment across countries inherently limit the extent to which international comparability of accounting information can be achieved through the adoption of IFRSs alone. According to Ball et al. (2003, p.259), complete comparability of financial reports prepared using IFRSs would require a uniform set of professional accountants internationally, which in turn would require complete worldwide integration of economic, cultural and political systems. Certainly there are many challenges for the IASB in attempting to transfer their accounting concepts to various countries which have different cultures, different roles of the profession and differences in the level of education and experience of professional accountants. It is argued that the IASB and other regulators, both national and international, need to work towards reducing these differences and help facilitate the process of both *de facto* and *de jure* accounting convergence.

A number of policy implications for accounting regulators emerge and could be considered to facilitate greater consistency in the interpretation and application of accounting standards. First, accounting regulators could reassess the use of uncertainty expressions with the intention of reducing the number of expressions used in accounting standards (Laswad and Mak 1997, p.16). Mason and Gibbins (1991, p.23) also argued that it would be useful to review accounting standards in order to reduce the large number of ambiguities and other difficulties that detract professional accountants from exercising their judgments. Second, retain the uncertainty expressions that are well understood with high communication efficiency, and provide guidance on their intended interpretation (Simon 2002, p.624). Chesley and Wier (1985, p.41) also argued that the problem of inconsistency in the interpretation of uncertainty expressions used in accounting standards could be overcome by assigning a suggested range of probabilities to standard uncertainty expressions.¹ Third, it is also important to publicize the uncertainty expressions used in the accounting standards so that professional accountants attach common meanings to these terms.

Consistency in judgments could also be improved through training programs. An understanding of how various accounting standards differ as to 'complexity' might provide some information on which types of standards require greater levels of exposure and training. Moreover, international training resources developed by multinational accounting firms may be used to bridge the differences in judgments that exist between the big 4 and non-big 4 professional accountants. Local accounting regulators may then use these resources to train their professional accountants.

The results of this study also have implications for improving learning and teaching of accounting. Specifically, accounting educators may like to ensure that meanings intended in the various principles-based standards are effectively communicated to students within specific national contexts. The close involvement of the regulatory

¹ A number of studies, including Davidson (1991) and Simon (2002), have identified a list of uncertainty expressions contained in the accounting standards and the expected range of their probabilities.

bodies in promoting global 'accounting think' is certainly required (Patel and Psaros 2000, p.330). Additionally, there is a need for a comprehensive and unambiguous interpretation of guidelines on the application of IFRSs, more so than what is currently provided by the IASB's International Financial Reporting Interpretations Committee. For example, this will further reduce the idiosyncratic judgments of professional accountants. The issue seems particularly important as the need to exercise professional judgment is increasing with the issuance of new and complex IFRSs. Moreover, as the emphasis on judgment increases, one potential implication for accounting education is the necessity of developing the needed judgment skills within the accounting education program (Schipper 2003, p.61).

6.40 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Some limitations of this study need to be recognized. First, this study has primarily relied on survey research methods to collect the relevant data from professional accountants in Fiji and Australia. One of the limitations of this method is that valid research outcomes will only result if the preparatory process is adequately followed. Overall, this study has used a number of techniques to develop and execute the survey research including (1) formulation of *a priori* hypotheses, (2) extensive pilot testing of the survey instruments, (3) collecting information from a sample of respondents from a well-defined population, and (4) using appropriate statistical techniques to analyze the results.

Second, although the impact of both cultural and a number of non-cultural variables (gender, age, level of formal education, years of work experience, level of familiarity and complexity of accounting standards) on the judgments of professional accountants has been examined in this study, the list of variables are not exhaustive. For example, the impact of other variables (such as other institutional and environmental factors

prevailing in the country and individual personality factors) may also help to explain the differences in judgments of professional accountants.

Third, this study has adopted the values-based structural functionalist perspective on culture (Paper 4). This perspective conceptualizes 'cultural reality' in terms of norms and values in a given society. There are, however, other perspectives on the notion of culture. For example, the symbolic interaction theories consider that culture does not determine individual or collective action; rather, it is created and re-created by people. Lachowicz (1997, p.1) argued that "people are seen as active participants who, through their interpreting, reinterpreting and challenging of values engage in a constant interaction with culture, rather than being passive and obedient followers." Though the non-values based conceptualization of culture adopted by the symbolic interaction theories provides useful insight, this approach does not outline the specific dimensions of culture and its impact on individual behaviors (Patel 1999, p.15). As already noted, this study addresses some of the limitations of the values-based structural functionalist perspective on culture by adopting three complementary approaches to provide a richer and more holistic insight into cultural differences between Australians in one cluster and Ethnic Fijians and Indo-Fijians in another cluster. These complementary approaches include: (i) drawing on the five dimensional cultural model of Hofstede (1980) and Hofstede and Bond (1988); (ii) providing additional insight into Australian, Ethnic Fijian and Indo-Fijian cultures by drawing on historical, psychological and sociological literatures to show the differences between the cultures in the two countries; and (iii) measuring within country cultural values in Fiji with respect to the two ethnic groups so that national and cultural identities are not implicitly assumed to be synonymous.

Fourth, by undertaking a comparative study of only two countries in the South Pacific region impairs the generalizability of the findings. Future research should also try to replicate the findings with respect to other countries in this region and elsewhere. Furthermore, as this study was limited to examining the judgments of the Anglo-Celtic professional accountants located only in Sydney, future studies can also extend this to

other major cities and states in Australia. Given the increasing number of students (professional accountants) arriving from China and India, future within country study could be undertaken to determine the similarities/differences in judgments of professional accountants from different ethnic groups in Australia.

Fifth, while the scenarios used in Papers 3 and 4 were developed depicting real world examples and are representative of the types of decisions professional accountants encounter in practice, they cannot represent all possible cases. Therefore, future studies may specifically investigate the judgments required in other IFRSs in various contexts.

Overall, the findings suggest the importance of further cross-cultural studies of this type to investigate the impact of cultural and non-cultural factors on judgments of professional accountants. There is a need for more conceptual and empirical research on the determinants of professional judgments of accountants in interpreting and applying accounting standards. Future studies can consider both the factors affecting judgments of professional accountants across different countries and also across accounting firms within a single country. Future research could also consider unraveling some of the incomplete findings of this study. In particular, the level of interaction between national and organizational culture could be considered in other jurisdictions. If similar results are obtained, this could have important implications on the consistency in which accounting judgments are made within a country. This study suggests that cross-cultural differences do give rise to differences in the interpretation of accounting standards that contain uncertainty expressions; further research is required in other jurisdictions to ascertain the generalizability of the results. Further research on the impact of 'national culture' and 'organizational culture' related differences in cognitive processes with respect to professional accountants' judgment can also be an important contribution towards the uniform application of IFRSs across different countries.

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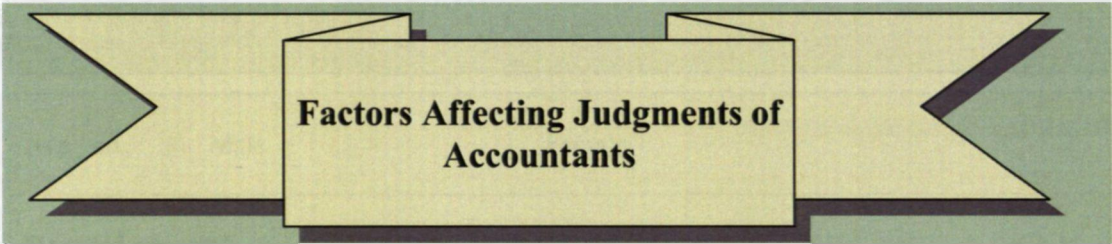
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APPENDIX 1

Survey Questionnaire – Paper 3



Factors Affecting Judgments of Accountants

The purpose of this study is to examine the factors affecting judgments of professional accountants in Fiji.

The questionnaire is in two parts. Part one collects personal data about the respondents. Part two consists of small case studies, and you are asked to provide judgments on 4 scenarios concerning a problem regarding appropriate financial reporting. It will take approximately 20–30 minutes to complete the questionnaire.

Any information you provide will be treated in strict confidence. Data will be analyzed in aggregate form, held solely by the researcher and will not be used for any other purpose. The participants may request a summary of the results directly from me.

It would be greatly appreciated if you could please complete the attached questionnaire. Your time and co-operation in this study will be greatly appreciated. Participation in this survey is voluntary and if you do not wish to participate you may simply not return the questionnaire.

Parmod Chand

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Please answer all questions. Your response is very important to the research which will contribute to understanding how various factors affect the judgments of professional accountants.

SECTION 1: YOUR PERSONAL PROFILE

Are you: ☐ Male ☐ Female

How old are you? ☐ Under 20 years ☐ 20–24 ☐ 25–29 ☐ 30–34 ☐ 35–39 ☐ 40–49 ☐ 50–59 ☐ 60 or over

How many years of formal education (primary, secondary and tertiary) did you complete (starting with primary school)?

☐ 10 years or less ☐ 11 years ☐ 12 years ☐ 13 years ☐ 14 years
☐ 15 years ☐ 16 years ☐ 17 years ☐ 18 years or over

If you have or had a paid job, what kind of job is it? _____

Who is your employer? _____

What is your membership status with the Fiji Institute of Accountants (FIA)?

What is your nationality? _____

What was your nationality at birth (if different)? _____

What is your ethnicity?

☐ Ethnic Fijian ☐ Indo-Fijian (Indian) ☐ Chinese ☐ Other _____ please specify)

SECTION 2: CASE STUDIES

Below are four scenarios. Each scenario concerns a problem regarding appropriate financial reporting. An extract of a conversation between two accountants is provided, in which one accountant states that a certain accounting treatment should be used and the second accountant is of the view that a different treatment should be used. In making your evaluation please note that by indicating that you agree (or disagree) with one party in the conversation, you will be understood to be disagreeing (or agreeing) with the other party. You may refer to the accounting standards in making your judgments [some relevant passages are given for guidance, but you can refer to the entire IASs/IFRSs (or FIA standards) where appropriate].

You are asked to provide a judgment on the matter by providing a response on the scale 1 to 5 (please indicate by circling the relevant number).

Case 1 Capitalization of Interest Cost

A small construction company secured a contract to build three blocks of flats as part of a housing project. To finance the work the company raised \$4 million in equity finance and began work on the first block. It subsequently negotiated a loan of \$8 million in order to secure the total finance it would require for the entire project. The first block of flats was completed in the current financial year. Work on the other two blocks is ongoing at the end of the current financial year, but is at an advanced stage of completion and the company is certain that the entire project will yield a profit.

You are given this portion of a conversation between Mr. A and Mr. B, two accountants who work for the company.

- Mr A “Now that part of the project is complete we will have to expense part of the interest on the loan that we raised to finance it.”
- Mr B “No. The project is still ongoing. We can still capitalize the interest on the loan element used to finance it.”

Record your reaction to Mr A’s view that part of the interest should now be expensed.

Case 1	Strongly agree	Agree	Not clear Preference	Disagree	Strongly disagree
Judgment on Mr A’s view	5	4	3	2	1

Did you use any other grounds in making your judgment? Yes / No
Please explain yes

FAS 23 Relevant paragraph:

27. When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

Case 2 Recognition of Deferred Tax Asset

An airline's books show a substantial balance on its deferred tax asset account. This balance relates in part to timing (temporary) differences and in part to losses incurred recently owing to a downturn in airline travel. The airline attributes the downturn in travel to the political instability in the country in 2000, the '9/11' effect, and more recently the war in Iraq and the outbreak of SARS. The airline has been consistently profitable in the past and has every expectation of returning to profitability when operating conditions return to normal.

You are given this portion of a conversation between Ms C and Ms D, two accountants who work for the airline.

Ms C "We will have to write off a proportion of the deferred tax asset now, as we cannot be virtually certain that it will be realized."

Ms D "No, we can maintain the balance on the deferred tax asset account as it can be applied whenever the company returns to profitability."

Record your reaction to Ms C's view that it will be necessary to write down the deferred tax asset.

Case 2	Strongly agree	Agree	Not clear Preference	Disagree	Strongly disagree
Judgment on Ms C's view	5	4	3	2	1

Did you use any other grounds in making your judgment? Yes / No

Please explain yes _____

IAS 12 Relevant paragraphs:

17. *A future income tax benefit referred to in the paragraph 9 shall only be carried forward as an asset where realization of the benefit can be regarded as being assumed beyond any reasonable doubt.
Realization should depend upon:*
 - a) *the ability of the reporting entity to derive future assessable income of a nature and sufficient amount to enable the benefit to be realized;*
 - b) *the ability of the reporting entity to continue to comply with the conditions for deductibility imposed by law; and*
 - c) *an expectation that legislation will not change in a manner which would adversely affect the reporting entity's ability to realize the benefit.*
18. *In the case of entities that incur losses, any future income tax benefit shall not be recognized as an asset unless realization of the benefit is virtually certain. Where any part of the future income benefit carried forward as an asset is attributable to tax losses, that part shall be separately disclosed by the way of note in the financial report.*

Case 3 Amortization of Goodwill

Company M acquired the entire equity of company N, a highly profitable enterprise, two years ago by paying a substantial premium over the fair value of company N’s net identifiable assets. Company M was happy to pay the premium in view of the fact that company N had a monopoly position for a service in the domestic market. While demand for the service is growing the initial capital outlay required to challenge company N’s monopoly position was considered so substantial that any would be competitor could not expect to secure sufficient market share to justify an investment to challenge company N’s monopoly position. Company M therefore capitalized the purchase premium and began amortizing it at 5% per annum in line with standard accounting practice.

Company X has now identified a new technological advance, which will allow it to enter company N’s industry with much reduced start up costs. While company X may have little scope to compete on price, by locating its new plant on the other side of Viti Levu to company N, it expects to capture half the domestic market within five years. Company N’s management in reviewing the situation regard company X’s prediction as realistic, but is confident that even with the competition it will now face, it will continue to operate profitably.

You are given this portion of a conversation between Mr. E and Mr. F, two accountants who work for company M.

Mr E “Fortunately even with the projected reduction in the profitability of company N it will still contribute sufficient profits to the group to cover the established amortization charge. There will be no need to change the schedule.”

Mr F “I disagree. We will have to make a one off write down of goodwill in recognition of the reduction in the future projected profits from company N.”

Record your judgment on Mr E’s view that there is no need to change the established amortization schedule for goodwill.

Case 3	Strongly agree	Agree	Not clear Preference	Disagree	Strongly disagree
Judgment on Mr E’s view	5	4	3	2	1

Did you use any other grounds in making your judgment? Yes / No
Please explain yes _____

FAS 22 Relevant paragraphs:

44. *Goodwill should be amortized on a systematic basis over its useful life. The amortization period should reflect the best estimate of the period during which future economic benefits are expected to flow to the enterprise. There is a rebuttable presumption that the useful life of goodwill will not exceed twenty years from initial recognition.*
45. *The amortized method used should reflect the pattern in which the future economic benefits arising from goodwill are expected to be consumed. The straight-line method should be adopted unless there is persuasive evidence that another method is more appropriate in the circumstances.*
46. *The amortization for each period should be recognized as an expense.*
47. *With the passage of time, goodwill diminishes, reflecting the fact that its service potential is decreasing. In some cases, the value of goodwill may appear not to decrease overtime. This is because the potential for economic benefits that was purchased initially is being progressively replaced by the potential for economic benefits resulting from subsequent enhancements of goodwill. In other words, the goodwill that was purchased is being replaced by internally generated goodwill. IAS 38, Intangible Assets, prohibit the recognition of internally generated goodwill as an asset. Therefore, it is appropriate that goodwill is amortized on a systematic basis over the best estimate of its useful life.*
48. *Many factors need to be considered in estimating the useful life of the goodwill including:*
- a) the nature and foreseeable life of the acquired business;*
 - b) the stability and foreseeable life of the industry to which the goodwill relates;*
 - c) public information on the characteristics of goodwill in similar businesses or industries and typical lifecycles of similar businesses;*
 - d) the effects of product obsolescence, changes in demand and other economic factors on the acquired businesses;*
 - e) the service life expectancies of key individuals or groups of employees and whether the acquired business could be efficiently managed by another management team;*
 - f) the level of maintenance expenditure or of funding to obtain the expected future economic benefits from the acquired business and the company's ability and intent to reach such a level;*
 - g) expected actions by competitors or potential competitors; and*
 - h) the period of control over the acquired business and legal, regulatory or contractual provisions affecting its useful life.*
54. *The amortization period and the amortization method should be reviewed at least at each financial year-end. If the expected useful life of the goodwill is significantly different from previous estimates, the amortization period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from goodwill, the method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates under FAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, by adjusting the amortization charge for the current and future periods.*

Case 4 Expensing of Research and Development

Company Y has commissioned an agricultural research station to undertake consultancy work to develop a genetically modified strain of sugar cane that will be resistant to attack from cane pests and provide increased yields. Work in previous years moved forward to generate and test various strains of cane. In the current financial year planting has been undertaken and the strain under test has produced crops which proved to be pest resistant and provided an increased yield of sugar. The research station has indicated that there is no reason to presume that these results will not be replicated when the strain is introduced in the farms. No market research has been undertaken regarding consumer acceptance of the new strain of sugar. As sugar is regarded as a generic product this is not perceived to be a problem.

You are given this portion of a conversation between Ms G and Ms H, two accountants who work for company Y.

Ms G “We have moved to the development phase of this particular project and the prospects are good. We can capitalize this year’s expenditure.”

Ms H “I think we still have to regard this work as research. That means expensing this year’s outlay.”

Record your reaction to Ms G’s view that the outlay for the year can be capitalized.

Case 4	Strongly agree	Agree	Not clear Preference	Disagree	Strongly disagree
Judgment on Ms G’s view	5	4	3	2	1

Did you use any other grounds in making your judgment? Yes / No

Please explain yes _____

IAS 38 Relevant paragraphs:

Research Phase

- 42. *No intangible asset arising from research (or from the research phase of an internal project) should be recognized. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred.*
- 43. *This Standard takes the view that, in the research phase of a project, an enterprise cannot demonstrate that an intangible asset exists that will generate probable future economic benefits. Therefore, this expenditure is always recognized as an expense when it is incurred.*

44. *Examples of research activities are:*
- a) *activities aimed at obtaining new knowledge;*
 - b) *the search for, evaluation and final selection of, applications of research findings or other knowledge;*
 - c) *the search for alternatives for materials, devices, products, processes, systems or services; and*
 - d) *the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.*

Development Phase

45. *An intangible asset arising from the development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the following:*
- a) *the technical feasibility of completing the intangible asset so that it will be available for use or sale;*
 - b) *its intention to complete the intangible asset and use or sell it;*
 - c) *its ability to use or sell the intangible asset;*
 - d) *how the intangible asset will generate probable future economic benefits.*
Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
 - e) *the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and*
 - f) *its ability to measure the expenditure attributable to the intangible asset during its development reliably.*
46. *In the development phase of a project, an enterprise can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. This is because the development phase of a project is further advanced than the research phase.*
47. *Examples of development activities are:*
- a) *the design, construction and testing of pre-production or pre-use prototypes and models;*
 - b) *the design of tools, jigs, moulds and dies involving new technology;*
 - c) *the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and*
 - d) *the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.*
48. *To demonstrate how an intangible asset will generate probable future economic benefits, an enterprise assesses the future economic benefits to be received from the asset using the principles in IAS 36, Impairment of Assets. If the asset will generate economic benefits only in combination with other assets, the enterprise applies the concept of cash-generating units as set out in IAS 36.*
49. *Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the enterprise's ability to secure those resources. In certain cases, an enterprise demonstrates the availability of external finance by obtaining a lender's indication of its willingness to fund the plan.*
50. *An enterprise's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licenses or developing computer software.*

Thank you for taking the time to complete this survey. Your assistance is very much appreciated. If you have any further comments, please provide them in the space provided.

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Please ensure that you have answered every question. Missing questions will mean all of your responses are unusable.

Thank you for your participation!

APPENDIX 2

Survey Questionnaire – Paper 4

APPENDIX 2(A)

Survey Questionnaire – Paper 4

Australian Version

Survey of Accountants on the Factors Affecting Professional Judgment

My name is Parmod Chand, and I am a Lecturer in the Department of Accounting and Finance, Macquarie University, NSW, Australia. You are invited to participate in this survey, which is a part of my doctoral study, supervised by Professor Chris Patel [cpatel@efs.mq.edu.au, Ph: (612) 9850 7825] and Professor Hector Perera [hperera@efs.mq.edu.au, Ph: (612) 9850 4762]. The purpose of this questionnaire survey is to examine the influences of cultural values and professional experience on the interpretation of uncertainty expressions contained in the Australian equivalents of International Financial Reporting Standards (AIFRSs) [including International Accounting Standards (IASs)].

The questionnaire is in four parts. Part one collects personal data about the respondents. Part two comprises a Values Survey to collect data on cultural values. Part three contains selected uncertainty expressions extracted from the AIFRSs. You are asked to provide your judgment on the numerical probability that you would assign to those uncertainty expressions. Part four consists of small case studies, and you are asked to provide judgments on 3 scenarios concerning a problem regarding appropriate financial reporting. It will take approximately 25–40 minutes to complete the questionnaire.

Any information you provide will be treated in strict confidence. Data will be analyzed in aggregate form, held solely by the researcher and will not be used for any other purpose. The results of this survey will be incorporated into my PhD dissertation, which will be available at the Macquarie University Library for public access. The participants may also request a summary of the results directly from me.

It would be greatly appreciated if you could please complete the attached questionnaire. Your time and co-operation in this study will be greatly appreciated. Participation in this survey is voluntary and if you do not wish to participate you may simply not return the questionnaire.^a

Parmod Chand [pchand@efs.mq.edu.au, Ph: (612) 9850 6137]

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Please answer all questions. Your response is very important to the research which will contribute to understanding how the cultural values and professional experience affect the judgments of professional accountants.

^a The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Research Ethics Officer [telephone (612) 9850 7854, fax (612) 9850 8799, email: ethics@vc.mq.edu.au]. Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

SECTION 1: YOUR PERSONAL PROFILE

Please respond to the following questions so that a profile of respondents can be developed.

Are you: <input type="checkbox"/> Male <input type="checkbox"/> Female	
How old are you? <input type="checkbox"/> Under 20 years <input type="checkbox"/> 20-24 <input type="checkbox"/> 25-29 <input type="checkbox"/> 30-34 <input type="checkbox"/> 35-39 <input type="checkbox"/> 40-49 <input type="checkbox"/> 50-59 <input type="checkbox"/> 60 or over	
In total, how many years of formal education (primary, secondary and tertiary) did you complete?	
<input type="checkbox"/> Less than 15 years <input type="checkbox"/> 15 years <input type="checkbox"/> 16 years <input type="checkbox"/> 17 years <input type="checkbox"/> 18 years or over	
In which country did you complete your:	
Primary education	Secondary education
Tertiary education	
What is your current citizenship? _____	
What was your citizenship at birth (if different)? _____	
What is your ethnicity?	
<input type="checkbox"/> Anglo-Celtic <input type="checkbox"/> Chinese <input type="checkbox"/> Indian <input type="checkbox"/> Other _____ (please specify)	
Are you a member of: <input type="checkbox"/> CPA Australia <input type="checkbox"/> CA Australia	
How many years of professional experience do you have as a qualified CPA/CA? _____	
In which of the following areas do you specialize or work?	
<input type="checkbox"/> Audit <input type="checkbox"/> Tax <input type="checkbox"/> Consulting <input type="checkbox"/> Other	
In which type of firm/organization do you work?	
<input type="checkbox"/> Big 4 Accounting Firm <input type="checkbox"/> Non-big 4 Accounting Firm <input type="checkbox"/> Other (please specify)	
How large (in terms of qualified personnel) is the firm/organization in which you work?	
<input type="checkbox"/> 1-5 CPAs/CAs <input type="checkbox"/> 6-20 CPAs/CAs <input type="checkbox"/> 21-100 CPAs/CAs <input type="checkbox"/> Over 100 CPAs/CAs	
How familiar are you with Australian equivalents of IASs/IFRSs?	
<input type="checkbox"/> Very familiar <input type="checkbox"/> Familiar <input type="checkbox"/> Somewhat familiar <input type="checkbox"/> Not familiar	
How frequently do you refer to Australian equivalents of IASs/IFRSs in your professional practice?	
<input type="checkbox"/> Often <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never	

SECTION 2: CULTURAL VALUES

Please think of an ideal job – disregarding your present job, if you have one. Please indicate, by circling the relevant number, how important the following attributes would be to you in choosing an ideal job (Please circle one answer in each line across)	Utmost importance	Very important	Moderate importance	Little importance	Very little or no importance
Have sufficient time left for your personal or family life	1	2	3	4	5
Have good physical working conditions (good ventilation and lighting, adequate work space, etc.)	1	2	3	4	5
Have a good relationship with your supervisor	1	2	3	4	5
Have security of employment	1	2	3	4	5
Work with people who cooperate well with one another	1	2	3	4	5
Be consulted by your direct superior in his/her decisions	1	2	3	4	5
Have an opportunity for advancement to higher level jobs	1	2	3	4	5
Have an element of variety and adventure in the job	1	2	3	4	5

In your private life, how important is each of the following to you?	Utmost importance	Very important	Moderate importance	Little importance	Very little or no importance
Personal steadiness and stability	1	2	3	4	5
Thrift	1	2	3	4	5
Persistence (perseverance)	1	2	3	4	5
Respect for tradition	1	2	3	4	5

Please circle one answer in each line across	Never	Seldom	Sometimes	Usually	Always
How often do you feel nervous or tense at work?	1	2	3	4	5

Please circle one answer in each line across	Very seldom	Seldom	Sometimes	Frequently	Very frequently
How frequently, in your experience, are subordinates afraid to express disagreement with their superiors?	1	2	3	4	5

Please indicate how much do you agree or disagree with each of the statements	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
Most people can be trusted	1	2	3	4	5
One can be a good manager without having precise answers to most questions that subordinates may raise about their work	1	2	3	4	5
An organizational structure in which certain subordinates have two bosses should be avoided at all costs	1	2	3	4	5
Competition between employees usually does more harm than good	1	2	3	4	5
A company's or organizational rules should not be broken - not even when the employee thinks it is in the company's best interest	1	2	3	4	5
When people have failed in life it is often their own fault	1	2	3	4	5

Sometimes societies (or nations) are described using certain cultural values. Read the list and indicate by placing a 'tick' in the appropriate box, which society you think Australia most closely resembles (you may or may not hold these values). Please choose one option in each of the following four boxes, for example either A or B; C or D; E or F; G or H.

<p style="text-align: center;">A <input type="checkbox"/></p> <p>In society, people belong to extended families. Members of the extended family are supposed to help and care for each other; More emphasis on the fulfilment of personal obligations and duties to others; Emphasis on belonging to a group or organization; Family provides protection in exchange for lifelong loyalty; Strong family ties, frequent contacts; A marriage without children is not complete; Mothers expect to live with children in their old age.</p>	<p style="text-align: center;">B <input type="checkbox"/></p> <p>In society, everyone is supposed to take care of him/herself and his/her family; More emphasis on the fulfilment of the individual's needs and the utilisation of his/her abilities; Emphasis on individual achievements are stressed and valued; Children are supposed to take care of themselves as soon as possible; Weak family ties, rare contacts; Choosing to have no children in a marriage is a socially acceptable option; Mothers expect to live apart in their old age.</p>
<p style="text-align: center;">C <input type="checkbox"/></p> <p>Relationship orientation; Positive feelings about home and family; Living area and employment security important; Belief in group decisions; Work not central in a person's life space; Men claim suppressing joy and sadness; Children don't express aggression.</p>	<p style="text-align: center;">D <input type="checkbox"/></p> <p>Ego orientation; Less satisfied with home life; Advancement and earnings important; Belief in individual decisions; Work very central in a person's life space; Men claim showing joy and sadness; Children may express aggression.</p>
<p style="text-align: center;">E <input type="checkbox"/></p> <p>Long-term virtues taught: frugality, perseverance; Daily human relations (family, neighbourhood, friends) satisfying; Savings, investing; Young women expect affection from husband; Preschool child will suffer if mother works.</p>	<p style="text-align: center;">F <input type="checkbox"/></p> <p>Short-term virtues taught: social consumption; Less satisfied with daily human relations; Spending; Young women expect affection from boyfriend, not husband; Preschool child need not suffer if mother works.</p>
<p style="text-align: center;">G <input type="checkbox"/></p> <p>The uncertainty inherent in life is felt as a continuous threat that must be fought; Don't admit dissatisfaction with employer; More resistance to changes; Conservatism, law and order; Only known risks are taken; Tight rules on what is dirty and taboo; Children protected from the unknown.</p>	<p style="text-align: center;">H <input type="checkbox"/></p> <p>The uncertainty inherent in life is relatively easily accepted and each day is taken as it comes; Admit dissatisfaction with employer; Less resistance to changes; Openness to change and innovation; Willingness to take unknown risks; Lenient rules on what is dirty and taboo; Children exposed to unknown situations.</p>

SECTION 3: INTERPRETATION OF UNCERTAINTY EXPRESSIONS (EXCERPTS FROM SELECTED AIFRSs)

Listed below are uncertainty expressions that are contained in the Australian equivalents of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) which involve judgments.

Please indicate the numerical probability that best corresponds, in your opinion, to each underlined uncertainty expression in percentage terms on a scale of 0% to 100%.

AIFRS	Uncertainty expressions	Numerical probability
AASB 123 "Borrowing Costs" (paragraph 23.25)	Capitalization of borrowing costs shall cease when <u>substantially</u> all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.	_____ %
AASB 136 "Impairment of Assets" (paragraphs 36.110 & 111)	An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, that the asset's market value has increased <u>significantly</u> during the period.	_____ %
AASB 116 "Property, Plant and Equipment" (paragraph 16.7)	The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if: it is <u>probable</u> that future economic benefits associated with the item will flow to the entity.	_____ %
AASB 117 "Leases" (paragraph 17.4)	A finance lease is a lease that transfers <u>substantially</u> all the risks and rewards incidental to ownership of an asset.	_____ %
AASB 3 "Business Combinations" (paragraph 37)	The acquirer shall recognize separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date: in the case of a liability other than a contingent liability, it is <u>probable</u> that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably.	_____ %
AASB 111 "Construction Contracts" (paragraph 11.36)	When it is <u>probable</u> that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.	_____ %
AASB 117 "Leases" (paragraph 17.4)	A non-cancellable lease is a lease that is cancellable only upon the occurrence of some <u>remote</u> contingency.	_____ %

AASB 137 “Provisions, Contingent Liabilities and Contingent Assets” (paragraph 37.33)	Contingent assets are not recognized in the financial report since this may result in the recognition of income (revenue) that may never be realized. However, when the realization of income (revenue) is virtually certain , then the related asset is not a contingent asset and its recognition is appropriate.	_____ %
AASB 117 “Leases” (paragraph 17.10)	Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations which would normally lead to a lease being classified as a finance lease are: the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.	_____ %
AASB 137 “Provisions, Contingent Liabilities and Contingent Assets” (paragraphs 37.14 & 15)	A provision shall be recognized when: a. an entity has a present obligation (legal or constructive) as a result of a past event; ... In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.	_____ %
AASB 138 “Intangible Assets” (paragraphs 38.68 & 58)	Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria: it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; ...	_____ %
AASB 112 “Income Taxes” (paragraph 12.34)	A deferred tax asset shall be recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.	_____ %
AASB 118 “Revenue” (paragraph 18.14)	Revenue from the sale of goods shall be recognized when it is probable that the economic benefits associated with the transaction will flow to the entity.	_____ %
AASB 139 “Financial Instruments: Recognition and Measurement” (paragraph 39.20)	When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case, if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer; ...	_____ %

<p>AASB 112 “Income Taxes” (paragraph 12.56)</p>	<p>The carrying amount of a deferred tax asset shall be reviewed at each reporting date. An enterprise shall reduce the carrying amount of a deferred tax asset to the extent that it is <u>no longer probable</u> that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.</p>	<p>_____ %</p>
<p>AASB 120 “Accounting for Government Grants and Disclosure of Government Assistance” (paragraph 20.7)</p>	<p>Government grants, including non-monetary grants at fair value, shall not be recognised until there is <u>reasonable assurance</u> that:</p> <ul style="list-style-type: none"> a. the entity will comply with the conditions attaching to them; and b. the grants will be received. 	<p>_____ %</p>
<p>AASB 131 “Interests in Joint Ventures” (paragraph 31.54)</p>	<p>A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is <u>remote</u>, separately from the amount of other contingent liabilities:</p> <ul style="list-style-type: none"> a. any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers; b. its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and c. those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture. 	<p>_____ %</p>
<p>AASB 111 “Construction Contracts” (paragraphs 11.22 & 24)</p>	<p>When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.</p> <p>In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:</p> <ul style="list-style-type: none"> a. it is <u>probable</u> that the economic benefits associated with the contract will flow to the entity; and b. the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably. 	<p>_____ %</p>

SECTION 4: CASE STUDIES

Below are three scenarios. Each scenario concerns a problem regarding appropriate financial reporting. An extract of a conversation between two accountants is provided, in which one accountant states that a certain accounting treatment should be used and the second accountant is of the view that a different treatment should be used. In making your evaluation please note that by indicating that you agree (or disagree) with one party in the conversation, you will be understood to be disagreeing (or agreeing) with the other party. You may refer to the accounting standards in making your judgments [some relevant passages are given for guidance, but you can refer to the entire AIFRS where appropriate]. **You are asked to provide a judgment on the matter by providing a response on the scale 1 to 7 (please indicate by circling the relevant number).**

Case 1 Recognition of Leased Asset

Company X enters into a non-cancellable lease with a six year term for an item of plant, which has an expected useful life of 10 years. The present value of minimum lease payments is equal to 75 percent of the fair value of the asset at the date of inception of the lease. The residual value accounts for the remaining 25 percent. So confident is the lessor that the plant will retain its value that it is guaranteeing 60 percent of the residual value, with the lessee being responsible for guaranteeing the remaining 40 percent of the residual value.

You are given this portion of a conversation between two accountants (A & B) who work for company X:

Accountant A "Risks and Rewards of ownership would normally be expected to pass to the lessee in situations where, amongst others, at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. In this case, the present value of the minimum lease payments includes the lease payments plus 40% of the residual (from definitions of 'minimum lease payments' and 'guaranteed residual value'). This amounts to 85% (calculated as 0.75 + 0.4 x 0.25) of the fair value of the leased asset at the beginning of the leased term. Therefore, this could be recognized as a finance lease."

Accountant B "I disagree. Prima facie, this would not be a finance lease as 85% would not be considered to represent 'substantially all of the fair value of the leased asset'. This should be recognized as an operating lease."

Record your judgment on Accountant A's view that the asset should be recognized as a finance lease:

Case 1	Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Judgment on Accountant A's view	1	2	3	4	5	6	7

Please indicate the level of complexity of this case on the following scale:

Not Complex	Moderately Complex			Extremely Complex		
1	2	3	4	5	6	7

AASB 117 *Relevant paragraphs:*

8. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

10. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

(e) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Case 2 Capitalization of Interest

A small construction company (Company Y) secured a contract to build three blocks of flats as part of a housing project. To finance the work the company raised \$4 million in equity finance and began work on the first block. It subsequently negotiated a loan of \$8 million in order to secure the total finance it would require for the entire project. The first block of flats was completed in the current financial year. Work on the other two blocks is ongoing at the end of the current financial year, but is at an advanced stage of completion and the company is certain that the entire project will yield a profit.

You are given this portion of a conversation between two accountants (C & D) who work for company Y:

Accountant C "Now that part of the project is complete we will have to expense part of the interest on the loan that we raised to finance it."

Accountant D "No. The project is still ongoing. We can still capitalize the interest on the loan element used to finance it."

Record your judgment on Accountant C's view that part of the interest should now be expensed:

Case 2	Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Judgment on Accountant C's view	1	2	3	4	5	6	7

Please indicate the level of complexity of this case on the following scale:

Not Complex	Moderately Complex			Extremely Complex		
1	2	3	4	5	6	7

AASB 123 *Relevant paragraph:*

27. When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

Case 3 Deferred Tax Asset

A company (Company Z) holds a fixed interest security, which will mature in ten years time. Company Z classifies the investment as 'available for sale' and has accordingly reported it at fair value, in line with the requirements of AASB 139. Due to a sharp increase in interest rates, the market value of the security has fallen and now stands below the price the company paid to acquire it. Consequently, the management has resolved to write the investment down and recognize a deferred tax asset.

You are given this portion of a conversation between two accountants (E & F) who work for company Z:

Accountant E "The company's liquidity position is good and there is therefore no need to sell the investment in the foreseeable future. We may even hold it to maturity. The redemption value exceeds the cost of purchase. The company certainly does not plan to sell it when we would realize a loss on the purchase price. It is therefore not merely probable, but certain that we will realize this deferred tax asset. We should therefore be recognizing it."

Accountant F "The company has incurred tax losses from time to time in the past and its total taxable temporary differences are only sufficient to justify the recognition of the deferred tax assets already on the books. Clearly it cannot be regarded as probable that any deferred tax asset arising from the write down of the investment can be realized."

Record your judgment on Accountant E's view that a deferred tax asset should be recognized:

Case 3	Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Judgment on Accountant E's view	1	2	3	4	5	6	7

Please indicate the level of complexity of this case on the following scale:

Not Complex	Moderately Complex			Extremely Complex		
1	2	3	4	5	6	7

AASB 112 Relevant paragraph:

24. A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognized in accordance with paragraph 44.

Thank you for taking the time to complete this survey. Your assistance is very much appreciated. If you have any further comments, please provide them in the space provided.

Please ensure that you have answered every question. Missing questions will mean all of your responses are unusable.

Please return your completed survey in the enclosed self-addressed, stamped envelope to:

Parmod Chand
Department of Accounting and Finance
Division of Economic and Financial Studies
Macquarie University
NSW 2109
Australia.

Thank you for your participation!

APPENDIX 2(B)

Survey Questionnaire – Paper 4

Fijian Version

Survey of Accountants on the Factors Affecting Professional Judgment

My name is Parmod Chand, and I am a Lecturer in the Department of Accounting and Finance, Macquarie University, NSW, Australia. You are invited to participate in this survey, which is a part of my doctoral study, supervised by Professor Chris Patel [cpatel@efs.mq.edu.au, Ph: (612) 9850 7825] and Professor Hector Perera [hperera@efs.mq.edu.au, Ph: (612) 9850 4762]. The purpose of this questionnaire survey is to examine the influences of cultural values and professional experience on the interpretation of uncertainty expressions contained in the International Financial Reporting Standards (IFRSs) [including International Accounting Standards (IASs)] that Fiji has adopted.

The questionnaire is in four parts. Part one collects personal data about the respondents. Part two comprises a Values Survey to collect data on cultural values. Part three contains selected uncertainty expressions extracted from the IFRSs. You are asked to provide your judgment on the numerical probability that you would assign to those uncertainty expressions. Part four consists of small case studies, and you are asked to provide judgments on 3 scenarios concerning a problem regarding appropriate financial reporting. It will take approximately 25–40 minutes to complete the questionnaire.

Any information you provide will be treated in strict confidence. Data will be analyzed in aggregate form, held solely by the researcher and will not be used for any other purpose. The results of this survey will be incorporated into my PhD dissertation, which will be available at the Macquarie University Library for public access. The participants may also request a summary of the results directly from me.

It would be greatly appreciated if you could please complete the attached questionnaire. Your time and co-operation in this study will be greatly appreciated. Participation in this survey is voluntary and if you do not wish to participate you may simply not return the questionnaire.^a

Parmod Chand [pchand@efs.mq.edu.au, Ph: (612) 9850 6137]

PChand.

Please answer all questions. Your response is very important to the research which will contribute to understanding how the cultural values and professional experience affect the judgments of professional accountants.

^a The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Research Ethics Officer [telephone (612) 9850 7854, fax (612) 9850 8799, email: ethics@vc.mq.edu.au]. Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

SECTION 1: YOUR PERSONAL PROFILE

Please respond to the following questions so that a profile of respondents can be developed.

Are you: <input type="checkbox"/> Male <input type="checkbox"/> Female				
How old are you? <input type="checkbox"/> Under 20 years <input type="checkbox"/> 20-24 <input type="checkbox"/> 25-29 <input type="checkbox"/> 30-34 <input type="checkbox"/> 35-39 <input type="checkbox"/> 40-49 <input type="checkbox"/> 50-59 <input type="checkbox"/> 60 or over				
In total, how many years of formal education (primary, secondary and tertiary) did you complete?				
<input type="checkbox"/> Less than 15 years <input type="checkbox"/> 15 years <input type="checkbox"/> 16 years <input type="checkbox"/> 17 years <input type="checkbox"/> 18 years or over				
In which country did you complete your:				
Primary education		Secondary education		Tertiary education
What is your current citizenship? _____				
What was your citizenship at birth (if different)? _____				
What is your ethnicity?				
<input type="checkbox"/> Ethnic Fijian	<input type="checkbox"/> Indo-Fijian (Indian)	<input type="checkbox"/> Chinese	<input type="checkbox"/> Other	_____ please specify)
What is your membership status with the Fiji Institute of Accountants (FIA)? _____				
How many years of professional experience do you have as a FIA member? _____				
In which of the following areas do you specialize or work?				
<input type="checkbox"/> Audit	<input type="checkbox"/> Tax	<input type="checkbox"/> Consulting	<input type="checkbox"/> Other	
In which type of firm/organization do you work?				
<input type="checkbox"/> Big 4 Accounting Firm	<input type="checkbox"/> Non-big 4 Accounting Firm	_____ Other (please specify)		
How large (in terms of qualified FIA members) is the firm/organization in which you work?				
<input type="checkbox"/> 1-5 FIA members	<input type="checkbox"/> 6-20 FIA members	<input type="checkbox"/> 21-100 FIA members	<input type="checkbox"/> Over 100 FIA members	
How familiar are you with Fiji equivalents of IASs/IFRSs?				
<input type="checkbox"/> Very familiar		<input type="checkbox"/> Familiar	<input type="checkbox"/> Somewhat familiar	<input type="checkbox"/> Not familiar
How frequently do you refer to Fiji equivalents of IASs/IFRSs in your professional practice?				
<input type="checkbox"/> Often	<input type="checkbox"/> Sometimes	<input type="checkbox"/> Seldom	<input type="checkbox"/> Never	

SECTION 2: CULTURAL VALUES

Please think of an ideal job – disregarding your present job, if you have one. Please indicate, by circling the relevant number, how important the following attributes would be to you in choosing an ideal job (Please circle one answer in each line across)	Utmost importance	Very important	Moderate importance	Little importance	Very little or no importance
Have sufficient time left for your personal or family life	1	2	3	4	5
Have good physical working conditions (good ventilation and lighting, adequate work space, etc.)	1	2	3	4	5
Have a good relationship with your supervisor	1	2	3	4	5
Have security of employment	1	2	3	4	5
Work with people who cooperate well with one another	1	2	3	4	5
Be consulted by your direct superior in his/her decisions	1	2	3	4	5
Have an opportunity for advancement to higher level jobs	1	2	3	4	5
Have an element of variety and adventure in the job	1	2	3	4	5

In your private life, how important is each of the following to you?	Utmost importance	Very important	Moderate importance	Little importance	Very little or no importance
Personal steadiness and stability	1	2	3	4	5
Thrift	1	2	3	4	5
Persistence (perseverance)	1	2	3	4	5
Respect for tradition	1	2	3	4	5

Please circle one answer in each line across	Never	Seldom	Sometimes	Usually	Always
How often do you feel nervous or tense at work?	1	2	3	4	5

Please circle one answer in each line across	Very seldom	Seldom	Sometimes	Frequently	Very frequently
How frequently, in your experience, are subordinates afraid to express disagreement with their superiors?	1	2	3	4	5

Please indicate how much do you agree or disagree with each of the statements	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
Most people can be trusted	1	2	3	4	5
One can be a good manager without having precise answers to most questions that subordinates may raise about their work	1	2	3	4	5
An organizational structure in which certain subordinates have two bosses should be avoided at all costs	1	2	3	4	5
Competition between employees usually does more harm than good	1	2	3	4	5
A company's or organizational rules should not be broken - not even when the employee thinks it is in the company's best interest	1	2	3	4	5
When people have failed in life it is often their own fault	1	2	3	4	5

Sometimes societies (or nations) are described using certain cultural values. Read the list and indicate by placing a “tick” in the appropriate box, which society you think Fiji most closely resembles (you may or may not hold these values). Please choose one option in each of the following four boxes, for example either A or B; C or D; E or F; G or H.

<p style="text-align: center;">A <input type="checkbox"/></p> <p>In society, people belong to extended families. Members of the extended family are supposed to help and care for each other; More emphasis on the fulfilment of personal obligations and duties to others; Emphasis on belonging to a group or organization; Family provides protection in exchange for lifelong loyalty; Strong family ties, frequent contacts; A marriage without children is not complete; Mothers expect to live with children in their old age.</p>	<p style="text-align: center;">B <input type="checkbox"/></p> <p>In society, everyone is supposed to take care of him/herself and his/her family; More emphasis on the fulfilment of the individual's needs and the utilisation of his/her abilities; Emphasis on individual achievements are stressed and valued; Children are supposed to take care of themselves as soon as possible; Weak family ties, rare contacts; Choosing to have no children in a marriage is a socially acceptable option; Mothers expect to live apart in their old age.</p>
<p style="text-align: center;">C <input type="checkbox"/></p> <p>Relationship orientation; Positive feelings about home and family; Living area and employment security important; Belief in group decisions; Work not central in a person's life space; Men claim suppressing joy and sadness; Children don't express aggression.</p>	<p style="text-align: center;">D <input type="checkbox"/></p> <p>Ego orientation; Less satisfied with home life; Advancement and earnings important; Belief in individual decisions; Work very central in a person's life space; Men claim showing joy and sadness; Children may express aggression.</p>
<p style="text-align: center;">E <input type="checkbox"/></p> <p>Long-term virtues taught: frugality, perseverance; Daily human relations (family, neighbourhood, friends) satisfying; Savings, investing; Young women expect affection from husband; Preschool child will suffer if mother works.</p>	<p style="text-align: center;">F <input type="checkbox"/></p> <p>Short-term virtues taught: social consumption; Less satisfied with daily human relations; Spending; Young women expect affection from boyfriend, not husband; Preschool child need not suffer if mother works.</p>
<p style="text-align: center;">G <input type="checkbox"/></p> <p>The uncertainty inherent in life is felt as a continuous threat that must be fought; Don't admit dissatisfaction with employer; More resistance to changes; Conservatism, law and order; Only known risks are taken; Tight rules on what is dirty and taboo; Children protected from the unknown.</p>	<p style="text-align: center;">H <input type="checkbox"/></p> <p>The uncertainty inherent in life is relatively easily accepted and each day is taken as it comes; Admit dissatisfaction with employer; Less resistance to changes; Openness to change and innovation; Willingness to take unknown risks; Lenient rules on what is dirty and taboo; Children exposed to unknown situations.</p>

SECTION 3: INTERPRETATION OF UNCERTAINTY EXPRESSIONS (EXCERPTS FROM SELECTED IASs/IFRSs)

Listed below are uncertainty expressions that are contained in the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) which involve judgments.

Please indicate the numerical probability that best corresponds, in your opinion, to each underlined uncertainty expression in percentage terms on a scale of 0% to 100%.

IAS/IFRS	Uncertainty expressions	Numerical probability
IAS 23 "Borrowing Costs" (paragraph 23.25)	Capitalization of borrowing costs shall cease when <u>substantially</u> all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.	_____ %
IAS 36 "Impairment of Assets" (paragraphs 36.110 & 111)	An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, that the asset's market value has increased <u>significantly</u> during the period.	_____ %
IAS 16 "Property, Plant and Equipment" (paragraph 16.7)	The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if: it is <u>probable</u> that future economic benefits associated with the item will flow to the entity.	_____ %
IAS 17 "Leases" (paragraph 17.4)	A finance lease is a lease that transfers <u>substantially</u> all the risks and rewards incidental to ownership of an asset.	_____ %
IFRS 3 "Business Combinations" (paragraph 37)	The acquirer shall recognize separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date: in the case of a liability other than a contingent liability, it is <u>probable</u> that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably.	_____ %
IAS 11 "Construction Contracts" (paragraph 11.36)	When it is <u>probable</u> that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.	_____ %
IAS 17 "Leases" (paragraph 17.4)	A non-cancellable lease is a lease that is cancellable only upon the occurrence of some <u>remote</u> contingency.	_____ %

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (paragraph 37.33)	Contingent assets are not recognized in the financial report since this may result in the recognition of income (revenue) that may never be realized. However, when the realization of income (revenue) is virtually certain , then the related asset is not a contingent asset and its recognition is appropriate.	_____ %
IAS 17 "Leases" (paragraph 17.10)	Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations which would normally lead to a lease being classified as a finance lease are: the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.	_____ %
IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (paragraphs 37.14 & 15)	A provision shall be recognized when: a. an entity has a present obligation (legal or constructive) as a result of a past event; ... In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.	_____ %
IAS 38 "Intangible Assets" (paragraphs 38.68 & 58)	Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria: it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; ...	_____ %
IAS 12 "Income Taxes" (paragraph 12.34)	A deferred tax asset shall be recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.	_____ %
IAS 18 "Revenue" (paragraph 18.14)	Revenue from the sale of goods shall be recognized when it is probable that the economic benefits associated with the transaction will flow to the entity.	_____ %
IAS 39 "Financial Instruments: Recognition and Measurement" (paragraph 39.20)	When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case, if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer; ...	_____ %

IAS 12 “Income Taxes” (paragraph 12.56)	The carrying amount of a deferred tax asset shall be reviewed at each reporting date. An enterprise shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.	_____ %
IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” (paragraph 20.7)	Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that: a. the entity will comply with the conditions attaching to them; and b. the grants will be received.	_____ %
IAS 31 “Interests in Joint Ventures” (paragraph 31.54)	A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote , separately from the amount of other contingent liabilities: a. any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers; b. its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and c. those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.	_____ %
IAS 11 “Construction Contracts” (paragraphs 11.22 & 24)	When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied: a. it is probable that the economic benefits associated with the contract will flow to the entity; and b. the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.	_____ %

SECTION 4: CASE STUDIES

Below are three scenarios. Each scenario concerns a problem regarding appropriate financial reporting. An extract of a conversation between two accountants is provided, in which one accountant states that a certain accounting treatment should be used and the second accountant is of the view that a different treatment should be used. In making your evaluation please note that by indicating that you agree (or disagree) with one party in the conversation, you will be understood to be disagreeing (or agreeing) with the other party. You may refer to the accounting standards in making your judgments [some relevant passages are given for guidance, but you can refer to the entire IASs/IFRSs (or FIA standards) where appropriate]. You are asked to provide a judgment on the matter by providing a response on the scale 1 to 7 (please indicate by circling the relevant number).

Case 1 Recognition of Leased Asset

Company X enters into a non-cancellable lease with a six year term for an item of plant, which has an expected useful life of 10 years. The present value of minimum lease payments is equal to 75 percent of the fair value of the asset at the date of inception of the lease. The residual value accounts for the remaining 25 percent. So confident is the lessor that the plant will retain its value that it is guaranteeing 60 percent of the residual value, with the lessee being responsible for guaranteeing the remaining 40 percent of the residual value.

You are given this portion of a conversation between two accountants (A & B) who work for company X:

- Accountant A** “Risks and Rewards of ownership would normally be expected to pass to the lessee in situations where, amongst others, at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. In this case, the present value of the minimum lease payments includes the lease payments plus 40% of the residual (from definitions of ‘minimum lease payments’ and ‘guaranteed residual value’). This amounts to 85% (calculated as $0.75 + 0.4 \times 0.25$) of the fair value of the leased asset at the beginning of the leased term. Therefore, this could be recognized as a finance lease.”
- Accountant B** “I disagree. Prima facie, this would not be a finance lease as 85% would not be considered to represent ‘substantially all of the fair value of the leased asset’. This should be recognized as an operating lease.”

Record your judgment on Accountant A’s view that the asset should be recognized as a finance lease:

Case 1	Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Judgment on Accountant A’s view	1	2	3	4	5	6	7

Please indicate the level of complexity of this case on the following scale:

Not Complex		Moderately Complex			Extremely Complex	
1	2	3	4	5	6	7

IAS 17 Relevant paragraphs:

8. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

10. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (e) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Case 2 Capitalization of Interest

A small construction company (Company Y) secured a contract to build three blocks of flats as part of a housing project. To finance the work the company raised \$4 million in equity finance and began work on the first block. It subsequently negotiated a loan of \$8 million in order to secure the total finance it would require for the entire project. The first block of flats was completed in the current financial year. Work on the other two blocks is ongoing at the end of the current financial year, but is at an advanced stage of completion and the company is certain that the entire project will yield a profit.

You are given this portion of a conversation between two accountants (C & D) who work for company Y:

Accountant C "Now that part of the project is complete we will have to expense part of the interest on the loan that we raised to finance it."

Accountant D "No. The project is still ongoing. We can still capitalize the interest on the loan element used to finance it."

Record your judgment on Accountant C's view that part of the interest should now be expensed:

Case 2	Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Judgment on Accountant C's view	1	2	3	4	5	6	7

Please indicate the level of complexity of this case on the following scale:

Not Complex	Moderately Complex			Extremely Complex		
1	2	3	4	5	6	7

IAS 23

Relevant paragraph:

27. When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

Case 3 Deferred Tax Asset

A company (Company Z) holds a fixed interest security, which will mature in ten years time. Company Z classifies the investment as 'available for sale' and has accordingly reported it at fair value, in line with the requirements of IAS 139. Due to a sharp increase in interest rates, the market value of the security has fallen and now stands below the price the company paid to acquire it. Consequently, the management has resolved to write the investment down and recognize a deferred tax asset.

You are given this portion of a conversation between two accountants (E & F) who work for company Z:

Accountant E "The company's liquidity position is good and there is therefore no need to sell the investment in the foreseeable future. We may even hold it to maturity. The redemption value exceeds the cost of purchase. The company certainly does not plan to sell it when we would realize a loss on the purchase price. It is therefore not merely probable, but certain that we will realize this deferred tax asset. We should therefore be recognizing it."

Accountant F "The company has incurred tax losses from time to time in the past and its total taxable temporary differences are only sufficient to justify the recognition of the deferred tax assets already on the books. Clearly it cannot be regarded as probable that any deferred tax asset arising from the write down of the investment can be realized."

Record your judgment on Accountant E's view that a deferred tax asset should be recognized:

Case 3	Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly agree
Judgment on Accountant E's view	1	2	3	4	5	6	7

Please indicate the level of complexity of this case on the following scale:

Not Complex	Moderately Complex			Extremely Complex		
1	2	3	4	5	6	7

IAS 12 Relevant paragraph:

24. A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognized in accordance with paragraph 44.

Thank you for taking the time to complete this survey. Your assistance is very much appreciated. If you have any further comments, please provide them in the space provided.

Please ensure that you have answered every question. Missing questions will mean all of your responses are unusable.

Please return your completed survey in the enclosed self-addressed, stamped envelope to:

**Parmod Chand
Department of Accounting and Finance
Division of Economic and Financial Studies
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Thank you for your participation!

